Reasons For Historical Changes

- Tax Changes

Federal Tax Policy

Beginning in tax year 2001 and continuing through two successive federal tax acts, there have been recent federal tax policy changes that affect state collections. These include reducing the tax rate on capital gains and dividends, lowering the top marginal tax rates in each income bracket, the creation of a ten percent federal bracket, increasing the child tax credit, and eliminating the federal marriage penalty. All of these increased state income tax liability for taxpayers that itemize federal tax deductions. Other federal tax law changes have increased depreciation schedules or expensing maximums businesses may use when purchasing equipment. These latter two federal provisions reduced state income tax liability in the near term but will increase state tax liability later.

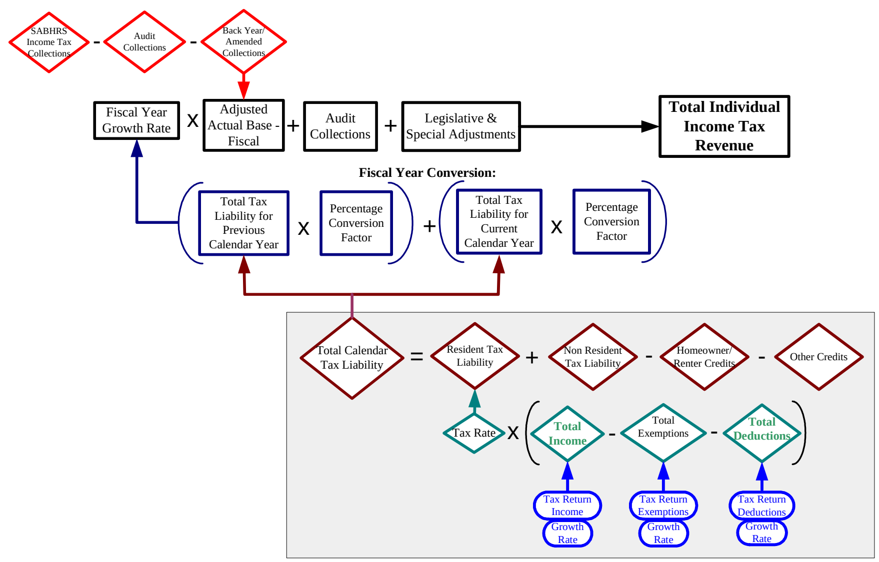
- Federal revenue reconciliation act of 1990 has a small impact on Montana due to the reduction in the top marginal rate on capital gains and ordinary income.
- Federal tax reform act of 1986 slows the growth in federal tax liability. The effect on Montana is a broadening of the tax base and a growth in state taxable income. The largest impact of the act is in fiscal 1989 and 1990.
- During the 1985 session, income tax revenues were increased to reflect the taxation of some social security benefits since state law piggy-backs federal law that affects revenues beginning fiscal 1985.

State

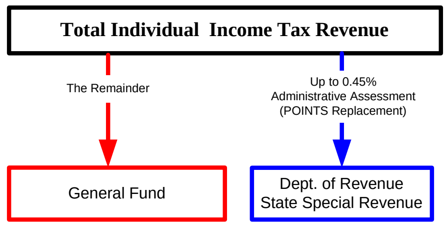
- Fiscal 2004, 2005 & 2006 – Senate Bill 407 (Chapter 544) creates a new seven-tier tax based on income brackets, limits federal deductibility to $5,000, creates a new income tax credit equal to 1 percent (increased to 2 percent in tax year 2007) of net capital gains income, and eliminates certain federal tax refunds as income.
- Fiscal 2004 & 2005 – Senate Bill 271 (Chapter 597) earmarks a portion of individual income taxes and corporation income taxes to pay the debt service on $17.1 million of loans to replace the POINTS computer system in the Department of Revenue, thus reducing general fund deposits.
- Fiscal 2004 – House Bill 616 (Chapter 205) repeals the changes enacted by Senate Bill 15 in the August 2002 special session.
- Fiscal 2003 – Senate Bill 15 (Chapter 24) of the August 2002 special session reduced the planned gift parameters from 40 percent of the gift amount to 30 percent, temporarily increased the maximum gift amount from $6,600 to $10,000, and temporarily increased the planned gift credit to 50 percent.
- Fiscal 2003 – House Bill 377 (Chapter 226 of the 2001 session) extends the termination of the endowment credit through calendar 2007 and decreases the amount of contributions eligible for the credit
- Fiscal 1998 – House Bill 434 (Chapter 537) provides a tax credit, equal to 50 percent of the gift amount, for planned gifts to qualified charitable endowment funds.
- Fiscal 1998 – House Bill 166 (Chapter 422) de-earmarks the portion of the revenue deposited in the long-range building debt service fund, thus increasing general fund deposits.

For a complete list of Historical changes contact the Legislative Fiscal Division.

Forecast Methodology



Distribution Methodology



Legislative Fiscal Division

www.leg.state.mt.us/fiscal

LFD Mission Statement

We are committed to enhancing the legislative process through understandable and objective fiscal policy analysis and information.

LEGISLATIVE FISCAL DIVISION

Taxes in Brief...

Individual Income Tax

November 2004 Fiscal Pocket Guide

Legislative Fiscal Division
Revenue and Taxation Policy
Room 110A, State Capitol
Helena, MT 59620-1711
(406) 444-2986

Individual Income Tax

Revenue Description:

The tax is levied against taxable income, which is defined as Montana personal income adjusted for exemptions and deductions. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits.

Applicable Tax Rate(s):

Tax rates vary from 1.0% to 6.9%, depending on the level of taxable income. Tax brackets, personal exemption amounts, and the standard deduction are adjusted by the rate of inflation in each year. SB 407, enacted by the 2003 legislature, created a new capital gains income tax credit. As a result the tax rate on capital gains income is less than the tax rate on ordinary income by 1 percent in tax years 2005 and 2006, and by 2 percent in tax year 2007 and beyond.

Distribution:

Beginning fiscal 2004 through fiscal 2011, the Department of Revenue may distribute up to 0.45% of this general fund revenue source as an administrative assessment to a state special revenue account to pay debt service on the loan used to fund a POINTS replacement computer system (enacted in Senate Bill 271 by the 2003 legislature). All other proceeds are deposited into the general fund.

Collection Frequency: Monthly

Major Drivers:

- Income components
- Deductions and credits
- Number of taxpayers
- Audit collections

Statutory Reference:

Tax Rate (MCA) – 15-30-103
Tax Distribution (MCA) – 15-1-501(1)
Date Due – 15th day of the fourth month of the filer's fiscal year (15-30-144). Withholding taxes due monthly, quarterly, or on an accelerated schedule depending on income (15-30-204). Estimated taxes due on the 15th day of the 4th, 6th, and 9th month and the month following the close of the tax year.

% of Total FY 2004 General Fund: 43.82%

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1983	151.800311	135.102282	Not App.
A	1984	170.346345	151.608247	12.22%
A	1985	181.057157	161.140870	6.29%
A	1986	172.216130	153.272356	-4.88%
A	1987	194.676947	173.262483	13.04%
A	1988	243.768721	219.241292	26.54%
A	1989	265.539814	238.963596	9.00%
A	1990	279.642960	252.230465	5.55%
A	1991	282.960086	258.216424	2.37%
A	1992	321.538093	293.564151	13.69%
A	1993	356.986934	326.187735	11.11%
A	1994	345.643403	315.677433	-3.22%
A	1995	371.902909	339.939156	7.69%
A	1996	383.091612	350.161013	3.01%
A	1997	406.275740	371.275410	6.03%
A	1998	444.160729	444.160729	19.63%
A	1999	483.031571	483.031571	8.75%
A	2000	516.261912	516.261912	6.88%
A	2001	556.014554	556.014554	7.70%
A	2002	517.567691	517.567691	-6.91%
A	2003	535.830664	535.830664	3.53%
A	2004	605.582309	605.348420	12.97%
F	2005	589.788000	588.638000	-2.76%
F	2006	607.653000	605.029000	2.78%
F	2007	632.984000	629.840000	4.10%